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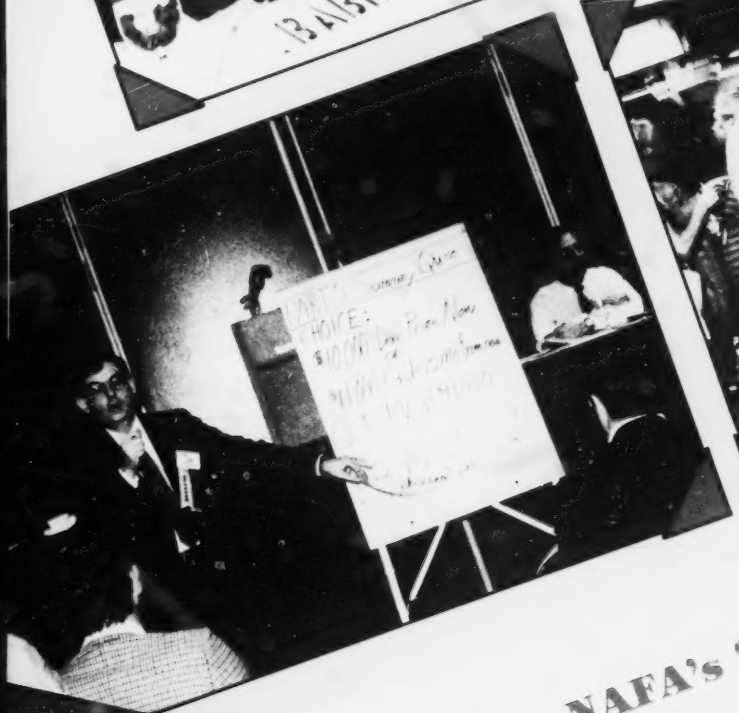

NAFA's 27th Annual Conference

CONFERENCE NEWS

Los Angeles, California

Conference Highlights

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NAFA Bulletin

The Magazine for Fleet Administrators
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NAFA Opposes H.R. 1415:

Elimination of Incentive Programs Poses Serious Threats to Economy

On Thursday, April 5, 1984, Robert Berke, executive director, NAFA, submitted testimony on behalf of its members on proposed legislation H.R. 1415. The following is NAFA's statement to the Commerce, Transportation, and Tourism Sub-Committee of the Energy and Commerce Committee, U.S. House of Representatives, explaining its opposition to those provisions of H.R. 1415, and is based on the survey results NAFA sent to its members.

ON BEHALF OF the members of the National Association of Fleet Administrators, Inc., I appreciate this opportunity to appear before the subcommittee. My purpose is to explain our opposition to those provisions of H.R. 1415 that would prohibit fleet incentive programs, allowances, and guaranteed depreciation or resale programs now being offered by automobile manufacturers.

About the Association

The National Association of Fleet Administrators, Inc., is a not-for-profit individual membership society of some 2,400 members and affiliates in the United States and Canada.

The members are working fleet managers employed by corporations and government agencies. NAFA members are not employed by firms engaged in the sale, rental, or lease of motor vehicles. They are the operators of motor vehicle fleets used in the conduct of business. At the present time these fleets consist of nearly 1,400,000 vehicles including more than 850,000 passenger cars.

Within the Association's membership, approximately 70 percent of the vehicles are used for sales-related purposes; 25 percent are service vehicles, and approximately five percent are used for deliveries.

The Association's affiliates are suppliers of essential products and services that are used by fleets and fleet managers. It should be pointed out that of the Association's 760 affiliates, 284, or 37 percent, are new car dealers. They have active fleet sales departments and staffs who are constantly seeking business from both corporate and leased fleets.

The Fleet Manager's Job

The fleet manager's responsibilities fall into three distinct categories, although all three are closely interrelated. They are: 1) the acquisition of new vehicles; 2) the efficient, economic, and safe operation of these vehicles, and 3) the eventual replacement of the used vehicles that enables the cycle to start over again.

"If incentive or allowance programs are prohibited, it will reduce competition between manufacturers, lessen the choices offered a rational car buyer, and reduce the number of vehicles purchased during a model year."

The fleet manager, either for a corporate fleet that buys its own cars or one who works with a leasing company, is a rational professional car buyer. He or she carefully considers a number of

factors before choosing the specific models that will go into the fleet. These factors include initial cost, economy of operation, and depreciation or resale value when the car is sold. It can be truthfully said that the fleet manager is the only new car buyer who considers the eventual used car value of his purchase before he buys.

In addition to these tangible considerations, the fleet manager must also take into consideration questions of employee morale and comfort because the car, in many cases, is the employee's office. This is one reason why option packages of comfort and convenience items are so important to the fleet buyer.

The Fleet Market

The fleet market is normally considered to consist of those firms or government agencies that register 10 or more new vehicles a year. It is divided into three segments: commercial fleets, or those that are company owned; rental and leased fleets, and government fleets.

According to our information, during the first 11 months of 1983, the fleet market acquired just under 1,100,000 new passenger cars. The rental and leasing segment accounted for about 79 percent of the new car acquisitions; corporate fleets, 15 percent, and government fleets, six percent.

H.R. 1415

As we understand the proposed legislation, its primary purpose is to protect the franchised new car dealer by preventing the automobile manufacturer from selling or offering to sell a motor vehicle at a lower price than such a vehicle is sold or offered for sale to the franchised new car dealer.

The advocates of the proposal claim that fleets get these lower prices through incentive programs, rebates, allowances, and guaranteed resale or depreciation rates, with the result that the franchised new car dealer is prejudiced.

Based upon factual information we have gathered and will share with you, these claims misrepresent the purpose of the incentive programs.

The incentive or allowance programs have one essential purpose: They enable the manufacturers to compete on equal terms with one another.

If these programs are prohibited, it will reduce competition between manufacturers, lessen the choices offered a rational car buyer, and, in some cases, reduce the number of vehicles purchased during a model year. In addition, in the opinion of many, it will increase the market penetration of imported cars to the detriment of American manufacturers.

The Association's Survey

Late in January, in preparation for this testimony, we sought to get the views of the Association's members. Our purpose was to make a presentation based on the facts of the fleet market and the incentive programs. We mailed a brief questionnaire to all Full Members of the Association in the United States. Within three weeks we received 332 responses from a total mailing of 1,065, a 30 percent response which we believe is a representative sample of the nation's corporate fleets.

These fleets operate 287,714 passenger cars. During 1984 they plan to acquire 86,118 new cars, a replacement rate of 30 percent of their fleet vehicles, representing an investment of nearly one billion dollars.

Only six of the 332 responding fleets did not participate in one or more of the incentive programs now offered by the automobile manufacturers.

The average value of these incentive programs or allowances amounted to $460.18 per car in leased fleets, and $425.69 in company-owned fleets.

According to the responding fleets, the average price or capitalized cost of the new cars that were acquired in 1983 was $9,164 for leased fleets, and $9,080 for company-owned units.

We submit that these are factually correct figures and are a far cry from the inflated figures submitted to you in earlier testimony and more closely reflect the real value of the incentive pro-

(Continued on page 28)

How H.R. 1415 Differs From Amended Bill H.R. 5305

The sponsor of H.R. 1415 has withdrawn the bill and substituted a new one, H.R. 5305. There are only minor changes in the wording of the bill, but nothing that changes the impact of the proposal as far as fleets are concerned.

The critical part of the bill that was changed is under SEC. 1A (a). H.R. 1415 stated that "Each franchise agreement between an automobile dealer and automobile manufacturer shall be deemed to prohibit the manufacturer (or any agent of the manufacturer) — "(1) from selling or leasing, and from offering to sell or lease, any passenger car, truck, or station wagon to any person (including any other automobile dealer) during any period of time at a price which is lower than the price at which the same model of passenger car, truck or station wagon, similarly equipped, is sold or leased, or offered for sale or lease, to such automobile dealer during the same period."

The amended bill H.R. 5305 now reads: Sec. 2 "No automobile manufacturer may sell or lease any new automobile in interstate commerce, or offer to sell or lease any new automobile in interstate commerce, to any person (including an automobile dealer) during any sales period at a price which is higher than the lowest price at which any other automobile of the same model, similarly equipped, is sold or leased, or offered for sale or lease, by the manufacturer during that sales period.

NAFA's Statement on H.R. 1415

(Continued from page 27)

grams and the prices paid for new cars by corporate fleets.

I mentioned earlier that elimination of these programs would have a substantial effect on the fleet market. One of the questions we asked was, "If the guaranteed depreciation or resale programs were eliminated, would your fleet mix change substantially?"

Nearly 50 percent of the fleets enrolled in such programs said, "Yes, their fleet mix would change substantially." In other words, the companies offering such guaranteed depreciation programs would lose fleet business.

"The incentive programs serve to help manufacturers and dealers sell more slow moving, or less popular, models. This is a legitimate and widely used marketing strategy."

We then asked, "If incentive programs or fleet allowances were not available to you or your leasing company, would this fact: a) reduce the number of cars you acquire in a year; b) increase the length of time your fleet cars are kept in service, and c) reduce the amount or number of optional equipment items you now order for your cars?"

This is what they told us: Twenty-seven percent of the respondents said they would reduce the number of cars they acquired every year.

Forty-two percent said they would increase the service life of their fleet cars, which, in effect, means they would be acquiring fewer new cars in future years.

Fifty-two percent said they would reduce the number of options they now order to hold down the price of the new cars they acquire.

The final question of the survey was, "What is your company's position on this proposed legislation?"

From this substantial cross section of American industry we received this answer: 85 percent said their firms were opposed to the legislation. Only two fleets of the 332 said they favored the legislation, and one of the two gave this reason for his position:

"We primarily use dealer leasing as dealer benefits far surpass factory incentives to fleets."

Nine percent of the respondents said their companies had no position on the proposal, while five percent said they did not know the company's position, or it was undetermined.

Conclusions

Let me stress that from the fleet point of view, that is the business fleets in the country, the elimination of incentive programs will have serious economic consequences.

1) It will reduce the number of new cars sold every year to fleets, either through a direct, immediate reduction in orders, or in longer service life.

2) It will force fleets to eliminate many comfort and convenience options so they can decrease the cost of the cars they do acquire.

3) Incentive programs now serve to equalize competition and make it possible for smaller members of the industry to gain fleet business. Eliminating incentive programs will damage these car makers and will eventually hurt all manufacturers and their dealers who still handle almost all fleet orders on an individually negotiated basis.

4) The incentive programs serve to help manufacturers and dealers sell more slow moving, or less popular, models. This is a legitimate and widely used marketing strategy in all industries.

5) The fleet segment of the automobile industry, particularly corporate fleets, has been the last stronghold of the domestic car makers. According to major leasing companies, 98 or 99 percent of their fleet orders are for American-made cars. The same is true for company-owned fleets. The elimination of incentives and allowance programs for fleets will speed the trend to imported cars.

One corporation commented: "Elimination of such programs by American manufacturers would give credence for us to begin discussions with foreign car makers."

One major corporation of several thousand vehicles expressed it in these words: "Elimination of such programs by American manufacturers would give credence for us to begin discussions with foreign car makers."

I would like to conclude this testimony with some pertinent comments from fleets that participated in our survey:

"We would probably consider buying cheaper models and change our model line-up."

"We would drop whatever options it would require to conform to the corporation's capitalization guidelines policy, or select less expensive models to conform to the guidelines."

"H.R. 1415 is completely out of context. Dealers do not suffer from fleet incentives; they actually benefit because of increased buying."

"Retail purchasers get special interest rates and deals; fleets don't. Fleets are stable, steady buyers; retail isn't."

"Our fleet orders are 'cut and dried,' they don't require a salesman's time. When the economy is bad, the fleets are still running and buying."

"These savings have been substantial in recent years and it would be safe to say they have enabled us to purchase an extra vehicle. As with many businesses, volume, usually and reasonably, gets a discount." ■

NAFA Survey on Incentive Programs

Total Responses	332
Total number of cars in your fleet?	287,714
Company-Owned	133,556
Leased	154,158
How many new cars will you acquire in 1984?	86,118

	Yes	No
1) Do you or your leasing company take advantage of incentive programs or allowances offered by the automobile manufacturers?	320	6
2) If yes, how much did they amount to (per car) in 1983?	Leased $460.18	Owned $425.69
3) What was the average price or capitalized cost (per car) of the new cars that you acquired in 1983?	Leased $9,164	Owned $9,080
4) Have you subscribed to a manufacturer's guaranteed resale or depreciation program?	147	178
a. If the guaranteed depreciation or resale programs were eliminated, would your fleet mix change substantially?	69	
5) If all fleet incentive programs were eliminated, what would be the biggest influence on your future vehicle selection (please check one):		
a. Used Car Prices	51	
b. Initial Cost	229	
c. Operating Expenses	56	
6) If incentive programs or fleet allowances were not available to you or your leasing company, would this fact:		
a. Reduce the number of cars that you acquire in a year?	88	237
b. Increase the length of time that your fleet cars are kept in service?	136	188
c. Reduce the amount or number of optional equipment items that you now order for your cars?	166	152
If yes, what items would you eliminate?		
Cruise Control — 72		
AM/FM Stereo — 81		
Tilt Wheel — 87		
7) What is your company's position on the proposed legislation? (please check one)		
Opposes	276	
Favors	2	
No position	29	
Undetermined	16	

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